

## Functional Series 600 - Budget and Finance

\*602 FORWARD FUNDING POLICY FOR PROGRAM FUNDS

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Functional Series 600 Budget and Finance

**\*Chapter 602 - FORWARD FUNDING POLICY FOR PROGRAM FUNDS**

602.1 Authority

1. "Forward funding" authority of FAA of 1961, as amended, section 635(h)
2. "Bona fide needs rule" as referenced in 31 USC 1502(a)
3. "No-year authority" of section entitled "Availability of Funds" in USAID appropriations acts, e.g. in the FY 1999 appropriations act it was section 511.

602.2 Objective

To provide policy and essential procedures on forward funding for USAID program accounts.

This chapter clarifies responsibilities for planning, managing, evaluating, and reporting the funding of new and ongoing activities for all program accounts except disaster assistance, administered by Office of Foreign Disaster Assistance and Office of Transition Initiatives, food aid, and credit programs. This includes Development Assistance, Child Survival and Disease Programs Fund, Economic Support Funds, Support for East European Democracy, and New Independent States accounts.

602.3 Responsibility

1. **Bureaus and Offices:** Bureaus and offices responsible for managing and approving programmatic resource allocations are to ensure that funding decisions by operating units comply with the policy and procedures in this chapter.
2. **Operating Unit Managers:** Mission and central operating unit managers are responsible for a) reviewing their forward funding requirements; b) providing relevant data to their bureaus in their annual Results Review and Resource Request (R4) reports, and as otherwise directed; and c) ensuring the quality of these data.
3. **Bureaus:** Bureau development program (DP) offices are responsible for reviewing the operating unit's pipeline management during the yearly budgetary process.
4. **The Bureau for Management (M):** The Chief Financial Officer (CFO) has overall responsibility for monitoring and reporting the Agency's pipeline.

5. Mission controllers are responsible for annual reviews to identify potential deobligations, as well as annual certification to the validity of obligations existing at year end.
6. The M Bureau: The Office of Budget (M/B) is responsible for drafting the forward funding policy and procedures and for monitoring pipeline levels in relation to budget planning.

#### 602.4 Definitions (See Glossary)

forward funding  
mortgage  
pipeline

#### 602.5 POLICY

The statements contained within the .5 section of this ADS chapter are the official Agency policies and corresponding essential procedures.

##### 602.5.1 FORWARD FUNDING AND AGENCY STANDARDS

The Agency's pipeline has been closely scrutinized by the Agency's Inspector General (IG), the General Accounting Office (GAO), and others.

Appropriate budget and program staff in the field and USAID/W must follow forward funding policies and procedures to ensure that the percentage of pipeline does not exceed Agency standards.

A balance must be achieved between providing adequate funds for activities and the need to limit obligations to only required needs.

In addition to helping management prioritize how resources are programmed, these policies and essential procedures are intended to ensure that the size of an operating unit's pipeline is appropriate for meeting its program objectives, as agreed in the management contract.

##### 602.5.2 MAXIMUM LENGTH OF FORWARD FUNDING

Except as described in sections 602.5.3 and 602.5.5, program managers must not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligation takes place. **(See 602.5.3 and 602.5.5)**

Since most obligations occur in the last half of the fiscal year, the upper limit of pipelines normally is not expected to exceed 18 months of anticipated expenditures for on-going activities. The upper limit is

obtained by adding 12 months to the number of months remaining in the fiscal year after the obligation is made. For example, if a program manager makes an obligation for an activity near the end of September (the last month of the fiscal year), the pipeline for that activity must not exceed 12 months (0 months plus 12), whereas if the obligation occurred in the middle of the fiscal year (i.e., at the beginning of April), the activity's pipeline must not exceed 18 months (6 months plus 12).

### 602.5.3 EXCEPTIONS TO THE MAXIMUM LENGTH OF FORWARD FUNDING

Some flexibility in forward funding is required to facilitate execution of some activities, and policy-conditioned forms of assistance might require an up-front commitment of assistance funds.

Operating unit directors have the authority to approve exceptions to the policies and essential procedures if compelling reasons exist. Such reasons must be documented. This authority may not be redelegated.

The following are examples of exceptions to the forward funding policy.

- a) Participant training: Fully fund each participant training program in the first acquisition and assistance request document.
- b) Construction activities: Initial obligations will be sufficient to cover required upfront commitments such as feasibility studies, development of detailed designs/specifications, etc. Obligations for actual construction and procurement of related equipment and services will generally be sufficient to fund fully USAID's contribution to a planned, discrete infrastructure activity.
- c) New programs: Obligations must be sufficient to cover at least the first 18 months, but not more than 24 months, if the life of the program funding is \$2 million or more. For programs costing less than \$2 million, full funding may be provided at the outset.
- d) Non-project assistance: Policy-conditioned non-project assistance may be fully funded if disbursements are planned for two years or less.
- e) Close-out countries: Missions designated as accounting stations for non-presence countries are encouraged to refer to the close-out instructions in ADS 527.6, Closing of Mission Checklists for Normal Close-out, for guidance on how to terminate programs and staff. It is also recommended that these missions give special attention to Section VI of this reference. Pipelines shall be liquidated as instructed in this section and Handbook 19. The

relevant section of Handbook 19 (which is in the process of being replaced) will vary depending on the unique requirements of a particular close-out mission. **(See Closing of Mission Checklists for Normal Closeout and Handbook 19)**

#### 602.5.4 ANALYZING AND REPORTING FORWARD FUNDING

For monitoring purposes, M/B calculates the pipeline of a program by means of the following formula (in this example, at the end of FY 1997):

$$\begin{array}{lcl} \text{number of months} & = & 12(\text{FY 97 pipeline})/ \\ \text{of pipeline} & & [(\text{FY 95 expenditures} + \\ & & \text{FY 96 expenditures} + \\ & & \text{FY 97 expenditures})/3]. \end{array}$$

The results of this pipeline analysis are compared with the standards in section 602.5.2. **(See 602.5.2)**

For new programs with less than three years' worth of expenditures, the number of months is calculated from the available data. M/B substitutes obligations for expenditures to calculate the number of months of pipeline when expenditure data are not readily available.

See section 602.5.2 for the policy pertaining to the maximum length of forward funding. Mission calculation of pipeline is clarified in section 602.5.6. **(See 602.5.2 and 602.5.6)**

#### 602.5.5 MINIMUM PIPELINE STANDARDS

While the assumption underlying the forward funding policy and procedures is that expenditures tend to lag behind obligations and thereby cause pipelines to increase, the insufficiency of pipelines to manage programs may also be addressed by operating units.

For example, operating units are expected not to submit budget requests with less than six months of estimated pipeline at the end of planning periods. A pipeline of at least six months ensures that operating units have sufficient funds to carry them through the period required for the establishment of the operating year budget.

Whenever the projected pipeline is less than six months at the end of the fiscal year, operating units are encouraged to reassess their estimated expenditure levels, reduce mortgages by eliminating activities where appropriate (i.e., request revisions to management contracts), or request additional funds.

In assessing the appropriateness of the pipeline, operating units may consider the predictability of the funding source and their own capacity to manage their programs at that level of pipeline.

#### 602.5.6 OPERATING UNIT PIPELINE: RESTRICTIONS AND ASSESSMENT

Operating units must calculate pipeline availability at the strategic objective level. Operating units, however, must be sensitive to the restrictions of specific funding sources within strategic objectives and advise DP offices of their budgetary impacts.

Forward funding requirements for operating units are normally based on pipeline plus projected expenditures. This requires well planned expenditure estimates to complement efforts to ensure that sufficient new funding is available for the Agency's highest priority activities.

#### 602.5.7 PROGRAM MANAGEMENT

Operating units must use the forward funding policies and essential procedures contained in this chapter when proposing funding levels and when managing program budget allocations.

Program managers must review annually all unliquidated obligations and make adjustments to bring pipelines, at least at the strategic objective level, into compliance with the forward funding policies. In doing so, program managers shall comply with the following procedures.

- a) Any amounts identified as excessive for programmatic needs may be considered candidates for deobligation. If possible, in conformity with the Agency's reobligation/ deobligation authority, these funds may be reallocated and reobligated to those strategic objectives that are underfunded and that warrant additional funding on the basis of performance and other relevant criteria used by the Agency in making resource allocation decisions.
- b) Older funds are to be expended before newer funds.
- c) For an ongoing activity, available pipelines are expected to be committed before new funds are added.

The operating unit's pipeline management will be reviewed by USAID/W during the R4 process and bureaus will summarize the outcomes of these reviews in their Bureau Budget Submissions (BBSs).

#### 602.5.8 BUREAU GUIDANCE

Bureau guidance may supplement these policy and procedures as needed.

602.6      **Supplementary Reference**

**ADS 527 Supplementary Reference** - Closing of Mission Checklists for Normal Close-out

602.7      Mandatory Reference – N/A

forward funding

The availability of funds to support future expenditures for a specified time period after a planned obligation. **This definition of forward funding applies to the use of program funds.** (Chapter 602)

mortgage

A claim on future resources, which have been authorized in the operating unit's management contract; the difference between the total authorized level of funding and the cumulative total amount of funds obligated to a particular strategic objective, intermediate result, or activity. (Chapter 602)

pipeline

The amount of funds obligated but not expended; the difference between cumulative obligations and cumulative expenditures, including accruals. (Chapter 602)

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